

Weak city finances crimp property tax reform debate

Stephen Janis, Examiner, September 16, 2008

The overflow crowd that attended a Baltimore City Council hearing on property tax reform last week may be in for a long wait for relief from the region's highest property levy.

City finance officials said Monday that a steep drop in tax collections over the summer could stall plans to cut taxes. "The numbers do not bode well, that is for sure," City Finance Director Edward Gallagher said about a 50 percent drop in recordation and transfer taxes collected in July over the previous year.

Planned cuts in state aid to local governments in response to new state budget deficits and continuing deterioration of the real estate market have prompted Gallagher to prepare a series of recommendations for unplanned cuts to the current budget for Mayor Sheila Dixon. "We're preparing a plan that will give the mayor a number of options," he said, declining to provide specifics.

Among Gallagher's concerns were low investment returns for the city's underfunded pension funds, which could force the city to raise annual contributions above the \$118 million payment made this past fiscal year.

"There were very poor returns last year for the pension funds," Gallagher said. "Who knows what's going to happen this year?"

But in the short term, Gallagher said finance officials have to address a precipitous drop in recordation and transfer taxes — fees paid by purchasers of real estate and main contributors to past city surpluses.

Receipts from these taxes fell about 50 percent in July compared with July 2007, and dropped nearly 40 percent in August compared with that time last year — leaving the city several million dollars below projections just two months into the current fiscal year.

Still, the worsening economy did not deter City Councilman Bill Cole, D-11th District — who heads the council's committee on property tax reform — from seeking new sources of revenue to provide tax relief now.

"I think we're dealing with two different issues," Cole said of the city's current fiscal crisis.

"The operating fund's challenges need to be addressed, but we also need to focus on trying to lessen the burden for the taxpayers that have supported the city," Cole said.

Cole said immediate relief may come from increasing the city's 7.5 percent hotel occupancy tax to 10 percent, which would raise \$4.1 million annually. "I think the

increase we proposed in the hotel occupancy tax would allow for a 2-cent decrease in property taxes, which is a start.”

But administration officials said the best chance for short-term property tax relief is the current referendum on the November ballot to legalize slot machines. “To a large extent the success of the slots referendum would determine the way forward in terms of cutting the property tax,” said Sterling Clifford, Dixon’s spokesman. Other council members expressed caution at lowering taxes until the economy improves.

“Right now what we’re looking at is trying to just maintain services without raising the tax rate,” said City Councilman Robert Curran, D-4th District. “We don’t want to give a tax cut and be forced by poor economic conditions to have to give it back.”

Caps proposed for pension payments

Faced with mounting contributions to Baltimore City pension funds for retirees, administration officials are considering a proposal that would cap future increases of payments to pensioners at 1.5 percent annually.

“What it does is guarantee an increase to pensioners annually but makes sure we are able to roll over gains to ensure the ability of the fund to make future payments,” said Stephan Fugate, chairman of Baltimore’s Fire and Police Employees Retirement System. Fugate said that without the cap, city contributions to the pension fund may become unmanageable.

“Our actuaries determined without it, the city would have to pay an additional \$54 million annually in pension contributions,” Fugate said.

City tax revenues hit hard

Transfer taxes bolstered city coffers during the recent real estate bubble. Paid by the purchaser each time a home is sold in the city, revenues from transfer taxes have fallen dramatically in recent months as home sales decline — further straining city finances.

	2008	2007	percent drop
July			
transactions	950	1,432	33 percent
transfer tax revenue	\$1,877,808	\$3,587,452	47.7 percent
recordation tax revenue	\$2,110,389	\$4,297,375	50.9 percent
August			
transactions	1,215	1,857	34.6 percent
transfer tax revenue	\$2,373,692	\$3,792,540	37.4 percent
recordation tax revenue	(not available)	\$4,308,203	n/a

Source: Baltimore City Department of Finance